

Message Text

CONFIDENTIAL

PAGE 01 STATE 168052

60

ORIGIN NEA-12

INFO OCT-01 ADP-00 TRSE-00 AID-20 EB-11 ABF-01 OPIC-12 L-03

SSO-00 NSCE-00 INRE-00 CIAE-00 INR-10 NSAE-00 RSC-01

NSC-10 USIE-00 PRS-01 PC-15 H-03 AGR-20 COME-00 SCI-06

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OPIC:JMCMATH

OPIC/GC:SFRANKLIN

L/NEA:TBROWN(SUBS)

NEA/INS:DKUX

AID/GC:AGARDINER(SUBS)

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

C O N F I D E N T I A L STATE 168052

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: RUPEE NEGOTIATIONS

REF: A. NEW DELHI 9626

B. STATE 164949

C. STATE 162151

D. NEW DELHI 9642

E. NEW DELHI 9692

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 168052

1. SPECIFIC COMMENTS ON SEVERAL POINTS RAISED REFTTEL A

FOLLOW:

A. NEPAL AID. FOR RECORD, CONTINUING USE OF USG RUPEES FOR AID IN NEPAL CONTEMPLATED IN PARA 1.E OF ORIGINAL INSTRUCTIONS (STATE 134136) ALBEIT NOT RPT NOT SPECIFICALLY CITED. WE DID NOT RPT NOT BELIEVE IT USEFUL IN GENERAL INSTRUCTION TO ATTEMPT LIST ALL SPECIFIC PAST USES SUCH AS SAY, PAYMENT OF AIR TRAVEL, OR AID TO NEPAL. PLEASE BEAR IN MIND THAT US AID TO NEPAL CAN BE FUNDED WITH NON-PL-480 RUPEES ONLY AGAINST DOLLAR APPROPRIATIONS. WE, OF COURSE, SEEK TO CONTINUE TO USE PL-480 RUPEES AGAINST OMB ALLOCATIONS AS HERETOFORE AND ACCORDINGLY TO NON-PL-480 RUPEES RETAINED.

B. NEPAL - ALL OTHER AGENCIES. ARE YOU SATISFIED THAT WE

WILL BE FULLY COVERED BY AGREEMENT WITH INDIA FOR THE CONTINUED USE OF RUPEES FOR THE REGULAR AND PROGRAM COSTS OF USIS, PC AND OTHER USG AGENCIES, AS WELL AS EMBASSY USES IN NEPAL?

C. OUR CONSULTATIONS WITH USG AGENCIES HERE INDICATE THAT ONLY PL-480 CURRENCIES ARE USABLE FOR THE SPECIAL FOREIGN CURRENCY PROGRAMS OF FOUR USG AGENCIES OR DEPARTMENTS. FOR THESE FOUR TO CONTINUE TO OPERATE IN INDIA WITH RUPEES, WE MUST EITHER RETAIN ADDITIONAL PL-480 RUPEES OR SEEK CONGRESSIONAL ACTION TO AMEND THESE AGENCIES' BASIC STATUTES.

D. ACCOMMODATION EXCHANGE. YOU ARE CORRECT THAT USG HAS AUTHORITY SELL ITS OWN NON-PL-480 RUPEE CURRENCY HOLDINGS TO ITS EMPLOYEES. WE COULD NOT RPT NOT ACCEPT ANY GOI LIMITATION ON THIS AUTHORITY, WERE INDIANS RAISE OBJECTION.

E. SALES TO TOURISTS/FOUNDATIONS. WE DO NOT RPT NOT NOW HAVE LEGISLATIVE AUTHORITY USE NON-PL-480 RUPEES FOR SALES TO TOURISTS/FOUNDATIONS. AMOUNTS HISTORICALLY HAVE NOT BEEN OF GREAT IMPORTANCE. HOWEVER, CONGRESSIONAL INTEREST HAS BEEN KEEN AND RELEVANT PROVISION OF PL-480 WAS
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 168052

INCLUDED BY CONGRESS AND NOT RPT NOT ORIGINALLY SOUGHT BY ADMINISTRATION. IN LIGHT CONGRESSIONAL INTEREST THIS USE OF RUPEES, WE THINK YOU SHOULD RETAIN SUFFICIENT PL-480 FUNDS TO PERMIT CONTINUED SALES TO TOURISTS/ FOUNDATIONS UP TO THE AMOUNTS AVAILABLE FOR SUCH SALES UNDER EXISTING PL-480 SALES AGREEMENTS.

F. COOLEY LOANS. THERE ARE TWO ISSUES HERE. FIRST,

WHAT TO DO WITH 93 OUTSTANDING LOANS IN COOLEY PORTFOLIO. SECOND, WHETHER OR NOT TO RETAIN INDIAN AGREEMENT TO MAKE SUCH LOANS IN THE FUTURE. AS FOR LOANS ALREADY MADE, WE APPRECIATE YOUR REASONS FOR ASSIGNMENT TO THE GOI BUT THINK THIS SHOULD NOT BE DONE. WE ANTICIPATE US BUSINESSES WOULD REGARD IT AS A NASTY SURPRISE TO SUDDENLY FIND THAT THE ENTERPRISES HAD THE GOI AS THEIR PRINCIPLE CREDITOR, PARTICULARLY THOSE WHO SUSPECT THAT GOI DESIRES TO NATIONALIZE THEIR INTEREST, AND FEAR GOI ADMINISTRATION OF COOLEY LOANS COULD BE USED TO PUT PRESSURE ON THEM. SUCH FEELINGS, WHATEVER THEIR BASIS IN FACT, COULD OBVIOUSLY CAUSE SEVERE PROBLEMS WITH CONGRESS WHERE, OF COURSE, CONCEPT OF COOLEY LOANS DEVELOPED. FINALLY, ASSIGNMENT OF OUTSTANDING LOANS COULD PROVE TROUBLESOME PRECEDENT WITH OTHER GOVERNMENTS. IF YOU BELIEVE IT WOULD BE HELPFUL, YOU MAY EXPLORE WITH GOI POSSIBILITY OF TRANSFER OF ADMINISTRATION OF OUTSTAND-

ING COOLEY LOAN PORTFOLIO TO ICICI WHICH WOULD ACT AS AGENT FOR OPIC AND AID. FOR THE FUTURE -- OUR SECOND ISSUE -- YOU MAY OFFER TO RELINQUISH UNCOMMITTED (PL-480) RUPEES CURRENTLY AVAILABLE FOR COOLEY LOANS AND TO PAY OVER FUTURE RETURNS ON THE OUTSTANDING PORTFOLIO, BUT COUPLE THIS WITH GOI AGREEMENT WHEREBY RUPEES COULD BE MADE AVAILABLE IN THE FUTURE BY LOANS OR GRANTS TO PRIVATE SECTOR PROJECTS HAVING OPIC OR OTHER USG SUPPORT. OPIC HAS AUTHORITY MAKE SUCH LOANS WITH OTHER RUPEES. TO MEET GOI CONCERNS, AMOUNT OF SUCH FUTURE LOANS COULD BE LINKED TO AMOUNT OF EXTERNAL INVESTMENT MADE IN PROJECT WITH OPIC COVERAGE BUT WITH RELENDING OF LOAN REPAYMENTS ELIMINATED.

G. DEPOSITS IN US BANKS. WE AGREE FULLY WITH YOUR
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 168052

PARAGRAPHS 4 AND 5. WHILE WE HAVE NOT PLACED NEW RUPEE DEPOSITS IN THESE ACCOUNTS FOR SEVERAL YEARS, NEITHER HAVE WE WITHDRAWN OUR INTEREST EARNINGS, AND, THUS, THESE BALANCES HAVE GROWN TO EXTENT OF INTEREST EARNINGS. FRANKLY, WE SEE NO RPT NO REASON WHY THESE HOLDINGS SHOULD BE DISCUSSED AT ALL. THEY ARE WHOLLY SEPARATE FROM OUR CLAIMS ON THE GOI. THE FUNDS IN US BANKS HAVE BEEN PAID TO US, AND ARE PART OF THE INDIAN MONEY SUPPLY. OUR DEPOSITS IN THE RBI HAVE NOT BEEN PAID OUT TO US (AND ARE NOT RPT NOT PART OF MONEY SUPPLY).

H. MAINTENANCE OF VALUE. WE HAVE SOME DIFFICULTY IN OFFERING ANY DEFINITE OPINION ON YOUR LANGUAGE ON MOV WITHOUT A CLEARER IDEA OF THE OTHER PROVISIONS OF THE OVERALL AGREEMENT. SPECIFICALLY, WE DO NOT RPT NOT

INTEND THAT OUR SUGGESTED LANGUAGE BELOW REFER TO DEPOSITS IN US BANKS, I.E., THESE WOULD NOT RPT NOT BE TRANSFERRED TO RBI, NOR WOULD THEY BE SUBJECT TO MOV. OUR GENERAL FEELING IS THAT YOUR PROPOSED LANGUAGE (REFTEL D) COULD EXACERBATE THE INDIAN PROBLEMS WITH MOV OFTEN EXPRESSED TO YOU DURING THE NEGOTIATIONS. WE HAVE NOT RPT NOT YET REVIEWED MOV LANGUAGE IN CURRENT INDO-US AGREEMENTS, AND ACCORDINGLY, WE WOULD SUGGEST YOUR FIRST DRAFT REFLECT THE SUBSTANCE ONLY OF MOV. YOU MAY USE LANGUAGE ALONG THE FOLLOWING LINES:

1. THE GRAND TOTAL OF INDIAN RUPEES OWNED AND TO BE RETAINED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA, AS IDENTIFIED IN THIS AGREEMENT, IS RS. ---, WHICH FIGURE IS BASED ON RS. --- PRESENTLY HELD AND RS. -- OF PRINCIPLE AND INTEREST YET TO COME DUE FROM THE ANNEX II LOANS. AT THE EFFECTIVE RUPEE-DOLLAR EXCHANGE RATE AS OF THE DATE OF THIS AGREEMENT (RS. --- EQUALS DOLS 1),

THESE RUPEES OWNED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA ARE THE EQUIVALENT OF DOLS ---.

2. THE TWO GOVERNMENTS AGREED THAT THE AFORESAID GRAND TOTAL OF INDIAN RUPEES SHALL BE DEPOSITED IN A SPECIAL DOLLAR-DENOMINATED ACCOUNT IN THE RESERVE BANK
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 168052

OF INDIA.

3. WITHDRAWALS IN RUPEES FROM SUCH SPECIAL DOLLAR-DENOMINATED ACCOUNT BY THE UNITED STATES FOR USES REFERRED TO IN THIS AGREEMENT SHALL BE PAID BY THE RESERVE BANK OF INDIA AT THE HIGHEST OF ANY RATE OF EXCHANGE (I.E., THE LARGEST NUMBER OF RUPEES PER U.S. DOLLAR) ESTABLISHED BY THE GOVERNMENT OF INDIA, OR ANY AGENCY THEREOF, PREVAILING ON THE DATE OF THE WITHDRAWALS, PROVIDED THAT IF SUCH RATE IS LESS APPRECIATED THAN THE RATE AT WHICH RUPEES WERE DEPOSITED UNDER PARAGRAPH ONE OF THIS ARTICLE, THE RATE IN PARAGRAPH ONE SHALL APPLY.

IN PRESENTING THIS TO THE GOI YOU MAY WISH TO NOTE THAT THIS DRAFT LANGUAGE IS BASED ON A PL-480 AGREEMENT WITH POLAND (TIAS 5516).

2. OTHER POINTS WHICH OCCUR TO US:

A. AIR TRAVEL. USG PAYMENT OF OFFICIAL AIR TRAVEL PERMISSIBLE UNDER US LAW WITH NON-PL-480 RUPEES. HOWEVER, GOI EXCHANGE CONTROL LAWS AND REGULATIONS

OPERATE TO PREVENT US FROM USING OUR RUPEES FOR THIS PURPOSE. (THE ONE EXCEPTION MIGHT BE FOR TRAVEL ORIGINATING IN INDIA). WE ARE ABLE TO USE PL-480 SALES PROCEEDS CURRENCY FOR TRAVEL UNDER RIGHTS GIVEN USG IN INTERNATIONAL TRAVEL PROVISIONS OF PL-480 SALES AGREEMENTS (AND EXCHANGE OF LETTERS WITH THE TREASURY ATTACHE) AS EXCEPTION THESE GOI RESTRICTIONS. OUR USE OF RUPEES FOR THIS PURPOSE HAS BEEN A MOST VALUABLE DIRECT DOLLAR SAVER. WE CANNOT CONTEMPLATE DISPOSITION OF PL-480 ORIGINAL GENERATION BALANCES AVAILABLE US USES WITHOUT EXPLICIT AGREEMENT WITH GOI THAT ANY LOCAL CURRENCY BALANCES RETAINED BY USG WILL BE USABLE FOR OFFICIAL INTERNATIONAL TRAVEL, ON SAME BASIS AS PL-480 CURRENCIES HAVE BEEN USED HERETOFORE. (NOTE: THE FOUR USG AGENCIES CITED PARA 1.C ABOVE, COULD NOT RPT NOT, OF COURSE, USE NON-PL-480 RUPEES FOR TRAVEL).

B. WE WOULD APPRECIATE YOUR ASSESSMENT OF PROGRESS ON THE ITEMS, LISTED IN PARA 2 OF STATE 134136, WHICH
CONFIDENTIAL

CONFIDENTIAL

PAGE 06 STATE 168052

WE EXPECT THE INDIANS, IN ANTICIPATION OF A RUPEE

SETTLEMENT, TO CLEAR UP. IN PARTICULAR, WHAT ABOUT COOPERATIVE SCIENTIFIC RESEARCH PROGRAMS? RUSH

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